BRIEF IN SUPPORT OF PETITION

THE OPINIONS OF THE COURTS BELOW

The District Court wrote no opinion, making its decision in the form of Findings of Fact and Conclusions of Law (R. 28). The opinion of the Court of Appeals is reported in 117 Fed. (2d) 983, and printed at pages 2086 to 2090 of the record.

JURISDICTION

The grounds of jurisdiction are stated in the petition.

STATEMENT OF THE CASE

A statement of what is material to the consideration of the questions presented is contained in the petition.

SPECIFICATIONS OF ERRORS TO BE URGED

It is urged that the Circuit Court of Appeals for the Second Circuit erred in affirming the Court below on each of the grounds assigned by it as the basis of its decision, as summarized at pages five and six of the petition, and in failing to follow *Armstrong Paint & Varnish Works* v. *Nu-Enamel Corporation,* 305 U. S. 315.

SUMMARY OF ARGUMENT

The argument is summarized in the petition, in "The Reasons Relied on for the Allowance of the Writ".

ARGUMENT

I. In the present case, the Court of Appeals has found all the facts essential to a decree in the form approved in *Armstrong Paint & Varnish Works* v. *Nu-Enamel Corpo-*

ration, 305 U. S. 315, and other secondary meaning cases. Finding that "American Brakeblok" has achieved a secondary meaning identifying plaintiff's goods, that "there are a substantial number of people who understand" its abbreviation " 'brake block' to mean the plaintiff's linings" (R. 2089), and that "there are owners who prefer the plaintiff's linings and expect to get them when they ask for 'brake block' " (R. 2090), the Court of Appeals has found the facts which require the conclusion that "Brake Block" has acquired a secondary meaning as the trade name of the plaintiff's product (*Armstrong Paint & Varnish Works* v. *Nu-Enamel Corporation,* 305 U. S. 315; *Elgin National Watch Co.* v. *Illinois Watch Co.,* 179 U. S. 665; *O'Cedar Corporation* v. *F. W. Woolworth Co.* [C. C. A. 7] 66 Fed. [2d] 363; *Barton* v. *Rex-Oil Co.* [C. C. A. 3] 29 Fed. [2d] 474). Indeed, as the real brake blocks are used only on heavy duty trucks and buses comprising 1% of all motor vehicles, they are practically unknown in their primary sense to the drivers of passenger cars, and to service stations which repair them (R. 60-1, 102, 140, 147, 151, 252, 270, 314, 341, 428, 432). To the users of passenger car brake lining, therefore, the words "Brake Block" are known only for their secondary meaning as the trade name for plaintiff's lining. It would seem to follow that plaintiff is the owner of a valid registered trade-mark under the Trade-Mark Act of 1920, and is entitled to protection against colorable imitation of it, which that Act confers. That "National Brake Block" is a colorable imitation of "American Brakeblok" seems self-evident, particularly since the Court below has held that a substantial number of people understand "brake block", and "brake block" alone, to mean the plaintiff's lining.

Holding that "this might have led us to give some relief", had the labels remained on the goods when sold to car owners (R. 2089), the Court of Appeals inferred that the trade name on the defendant's label was deceptively similar to the plaintiff's. Otherwise, there would be no reason to grant relief, if the label had remained on the goods. Finding that "unscrupulous dealers substitute the defendant's linings for the plaintiff's when they know that the (car) owner wants the plaintiff's" (R. 2089), the Court has found the likelihood of deception of "the ordinary purchaser", upon which relief against unfair competition depends (*McLean* v. *Fleming,* 96 U. S. 245, 256; *Amoskeag Mfg. Co.* v. *Trainer,* 101 U. S. 51, 56, 63).

In the words of Mr. Justice Reed (*Armstrong Paint & Varnish Works* v. *Nu-Enamel Corporation,* 305 U. S. 315, 335), this secondary meaning of the words "Brake Block" entitles the plaintiff to "protection against their unfair use as a trade-mark or trade name by a competitor seeking to palm off his products as those of the original user of the trade name". That is exactly the relief which was asked for and denied in this case.

II. The instrument of fraud principle, as laid down by this Court does not contain the exception which the Circuit Court of Appeals engrafted upon it in this case. Mr. Justice Brandeis stated the rule in *Federal Trade Commission* v. *Winsted Hosiery Co.,* 258 U. S. 483, 494, as follows:

> "That a person is a wrongdoer who so furnishes another with the means of consummating a fraud has long been a part of the law of unfair competition."

In *Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526, 530, it was held:

> "The wrong was in designedly enabling the dealers to palm off the preparation as that of the respondent."

Of the two leading cases quoted above, one (*Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526) presented exactly the factual situation on which the Court of Appeals here held the principle inapplicable; that is, it involved the passing off of the infringing product to consumers in retail druggists' prescription bottles, after it had been removed from the defendant's original package. A comparable situation arose in *Coca-Cola Co.* v. *Koke Co.*, 254 U. S. 143[2] and in *Coca-Cola Co.* v. *Gay-Ola Co.*, 200 Fed. 720 (C. C. A. 6; cert. den. 229 U. S. 613; approved in *Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526, 530), where soda fountain consumers were given the fraudulent products, removed from the defendants' concealed containers, and served in drinking glasses bearing no labels at all. The fraud was set in motion by the defendants who produced the syrup and applied the infringing name to it. The fact that the last buyer did not see the deceptive trade name did not prevent an injunction under the instrument of fraud principle.

So, in *Federal Trade Commission* v. *Algoma Lumber Co.*, 291 U. S. 67, this Court held the defendant liable for

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[2]The defendant sold "Koke", in bottles as a beverage, and in barrels as a syrup for making a beverage at soda fountains. This Court's opinion dealt largely with the bottled beverage, but the opinions of the Courts below show that the sale of "Koke" syrup in barrels, to be placed under soda fountains for mixing drinks for consumers, was equally in issue (255 Fed. 894, C. C. A. 9; 235 Fed. 408, D. C. D. Ariz.).

selling yellow pine to retail lumber dealers as "white pine", which they, in turn, sold to consumers on calls for "white pine". The words "white pine" did not appear on the lumber at all. Therefore, to paraphrase the Court of Appeals in the present case: "If a dishonest retail dealer has meanwhile substituted the defendant's lumber on calls for 'white pine', the defendant's use of the words 'white pine' did not help him in the fraud". This Court, however, enjoined the practice.

Indeed, the unfair manufacturer's fraudulent label or trade name very often is not seen by the consumer when the sale occurs, since usually he is "handed the package done up in wrapping paper", as was observed in *City of Carlsbad* v. *W. T. Thackeray & Co.*, 57 Fed. 18, 20.

In each of the foregoing cases, the use of the deceptive trade name by the manufacturer was enjoined under the principle stated in *Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526, 530:

> "One who induces another to commit a fraud, and furnishes the means of consummating it, is equally guilty and liable for the injury."

Thus, in refusing to apply the instrument of fraud principle in the present case on the ground that retailers removed the defendant's deceptive label before passing off defendant's goods on calls for the plaintiff's, the Court of Appeals has denied the relief required by the *Nu-Enamel* case on grounds held untenable by this Court in the *Eli Lilly*, the *White Pine* and the *Coca-Cola* cases above.

This defendant represented its goods as those of the plaintiff, in the customary way of unfair competitors, by means of a deceptive trade name. Removing the labels,

defendant's dealers simply repeated this representation by the act of substituting the defendant's linings on calls for the plaintiff's. The deceptive label, which defendant applied to the goods furnished to retailers, carried the suggestion to pass off, and started the fraud on its way. The passing off which followed was the inevitable consequence. Had the label not been removed, the dealers' fraud would have been just the same. The only difference is that with the label intact there was some chance for an alert purchaser to detect it, while without it there was none.

To permit a manufacturer of goods bearing a deceptive trade name to escape liability simply because retail dealers remove the deceptive label before passing off the imitation for the genuine, is to encourage unfair competition, to subject consumers to continual deception, and to place the good will of honest manufacturers at the mercy of what the Court below described as "unscrupulous dealers" (R. 2089).

Indeed, if this decision is to stand, there would be no redress in equity, under these circumstances, against the manufacturer of a complete counterfeit of the label and trade-mark of another. Finding that retail dealers "substitute the defendant's linings for the plaintiff's when they know that the owner wants the plaintiff's" (R. 2089), the present decision sanctions the continuance of the very fraud which it condemns.

III. The decision of the Court of Appeals that "To succeed, the plaintiff was therefore bound to show that repair shops or service stations were deceived" (R. 2090), is again contrary to the decisions of this Court (*Federal Trade Commission* v. *Winsted Hosiery Co.*, 258 U. S. 483, 493). Again, in *Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526, it was held:

> "That no deception was practised on the retail dealers, and that they knew exactly what they were getting, is of no consequence."

So, in *Coca-Cola Co.* v. *Gay-Ola Co.*, 200 Fed. 720, 722 (C. C. A. 6, cert. den. 229 U. S. 613), it was said:

> "It is not necessary to show that the immediate purchasers were deceived as to the origin of the goods; but even if they thoroughly understand that they are buying the counterfeit, and not the genuine, the manufacturer of the counterfeit will be enjoined from selling it to dealers with the purpose and expectation that it shall be used by the dealers to deceive the consumer. * * * There is no room for it to shift the blame to 'tricky retailers'."

The rule of law heretofore existing is that it is not necessary to show actual deception of any one, but only "the tendency or likelihood" of deception of the "ordinary purchaser" (*McLean* v. *Fleming*, 96 U. S. 245, 256; *Amoskeag Mfg. Co.* v. *Trainer*, 101 U. S. 51, 56, 63; *S. S. Kresge Co.* v. *Champion Spark Plug Co.* [C. C. A. 6] 3 Fed. [2d] 415, 419). Here, the Court of Appeals expressly made the finding which establishes the likelihood of deception of the ordinary purchaser when it held:

> "Apparently, unscrupulous dealers substitute the defendant's linings for the plaintiff's when they know that the (car) owner wants the plaintiff's" (R. 2089; interpolation ours).

In failing to follow the *Nu-Enamel* case on the ground plaintiff was bound to show that service stations were deceived, the Court below has denied relief on the ground held untenable in *McLean* v. *Fleming*, 96 U. S. 245, 256, and *Amoskeag Mfg. Co.* v. *Trainer*, 101 U. S. 51.

However, defendant's lining is indistinguishable from the plaintiff's when affixed to brake shoes (R. 1030), as defendant's salesmen pointed out (R. 856, 859). Consequently, automobile service stations which deliver their patrons' brake shoes to brake service stations to be "relined with American Brakeblok" (Exs. 88, 91, 104) are as likely to be deceived as car owners, when the shoes are relined with "National Brake Block", as repeatedly occurred in this case (*ibid*). They are sure to be deceived, because there is no way except by chemical analysis of telling them apart (R. 1030).

IV. In holding that the defendant is not liable for "the proposals of some of its salesmen that dealers should fraudulently substitute the defendant's linings for the plaintiff's" (R. 2090), the Court of Appeals has again contravened this Court's decision in *Warner & Co.* v. *Eli Lilly & Co.*, 265 U. S. 526, where a manufacturer was held liable for salesmen's proposals of exactly this kind. The following extract from the opinion in that case (p. 530) shows the kind of salesmen's talk for which this Court holds an employer is liable:

> "Petitioner's salesmen appeared more anxious to convince the druggists with whom they were dealing that Quin-Coco was a good substitute for Coco-Quinine and was cheaper, than they were to independently demonstrate its merits. The evidence establishes by a fair preponderance that some of petitioner's salesmen suggested that, without danger of detection, prescriptions and orders for Coco-Quinine could be filled by substituting Quin-Coco. More often, however, the feasibility of such a course was brought to the mind of the druggist by pointing out the identity of the two preparations and the en-

> hanced profit to be made by selling Quin-Coco because of its lower price. There is much conflict in the testimony; but, on the whole, it fairly appears that petitioner's agents induced the substitution, either in direct terms or by suggestion or insinuation."

Here, there is no such conflict in the testimony. Defendant's salesmen admitted that they told dealers to sell "National Brake Block" on calls for "Brake Block" (R. 1316, 1319), which the Court of Appeals found "a substantial number of people * * * understand * * * to mean the plaintiff's linings" (R. 2089). Pointing out that "nobody would know the difference" with the labels removed (R. 856, 859), defendant's salesmen made this substitution attractive by offering "National Brake Block" at prices substantially lower than "American Brakeblok" (R. 773-4, 795-6, 817, 1303).

In employing salesmen to sell the product labelled "National Brake Block", the defendant vested them with the apparent authority to make the same representation orally that defendant made in writing by the deceptive trade name on its label. Thus, the present decision is contrary to the basic rule of law that a principal is liable for the acts of its agents acting within the scope of their apparent authority.

In refusing to impute to the defendant the fraud of its salesmen, the Court of Appeals also contravened the rule that a principal is liable even for unauthorized acts of its agents, which it ratifies and approves (*First Nat. Bank* v. *Biddle* [C. C. A. 5] 22 Fed. [2d] 11, 12; *Edwards Mfg. Co.* v. *Bradford Co.* [C. C. A. 2] 294 Fed. 176; *Royal Bank of Canada* v. *Universal Export Corporation* [C. C. A.

2] 10 Fed. [2d] 669, 671; American Law Institute Restatement of the Law of Agency, Secs. 97, 98; Mechem on Agency, Secs. 432-435).

This defendant did not disavow the proposals of its agents, which the Court below condemned. It ratified and defended them, on the trial, as being proper when made, and proper to be repeated, just as it maintained that it was proper to use "Brake Block", in a denominative way as part of its trade name (R. 1502-3). Finally, it still clings to the benefits of its agents' fraud. In the words of Mr. Justice Cardozo in *Federal Trade Commission* v. *Algoma Lumber Co.*, 291 U. S. 67, 81:

> "There is a kind of fraud, as courts of equity have long perceived, in clinging to a benefit which is the product of misrepresentation. * * * That is the respondents' plight today. * * * They must extricate themselves from it by purging their business methods of a capacity to deceive."

To permit an unfair competitor to escape liability for acts of its agents, which have been found to be fraudulent is, in effect, to create an immunity against this type of fraud, since the plaintiff's only alternative is wholly impractical, namely: the investigation of the entire territory in which the defendant's product is sold in order to detect the fraudulent acts of salesmen and dealers; the maintenance of a multiplicity of suits throughout the districts in which these acts occur; and the constant surveillance of the dealers and salesmen after they have been enjoined, to insure obedience to the injunctions. The prevention of such a multiplicity of suits is one of the chief grounds for equitable relief against unfair manufacturers, and is the

basis of the instrument of fraud rule (*Coca Cola Co.* v. *Gay-Ola Co.,* 200 Fed. 720, C. C. A. 6; cert. den. 229 U. S. 613; approved *Warner & Co.* v. *Eli Lilly & Co.,* 265 U. S. 526, 530). The present decision contravenes this long settled public policy.

V. The right to the relief sought is implicit in the opinion of the Court of Appeals. To refuse relief on the ground that the "last buyer" did not accept the defendant's goods "because of their name" (R. 2090), is contrary to the conclusion of the Court below that relief should be denied on the ground that "There is no evidence to impute to the defendant the proposals of some of its salesmen that dealers should fraudulently substitute the defendant's linings for the plaintiff's" (R. 2090). This quotation infers that if there were such evidence the defendant would be liable. But the salesmen's proposals were that the dealers remove the defendant's labels (R. 902, 856, 859), and sell defendant's lining on calls for "Brake Block", since "nobody would know the difference" (R. 856, 859).

Therefore, in holding, inferentially, that the defendant would be liable for the proposals of its salesmen, if there were evidence to impute these proposals to the defendant, there is implicit the conclusion that the defendant would be liable, even though the labels were removed by the "unscrupulous dealers" before "they fraudulently substitute the defendant's linings for the plaintiff's" on sales to the "last buyer". The reason must be because the "unscrupulous dealers" did just what the salesmen told them to do.

But the proposal made orally by the salesmen was the same as the proposal made in writing by the defendant, on its labels. This is implicit in the conclusion of the Court

below that it might have granted relief if the label had not been removed. The only difference was that the fraud suggested by the label is the subtle one of a deceptive trade name, while that of the salesmen was of the more robust type which leaves nothing to inference. By using the deceptive trade name on the label, the defendant made in writing the same fraudulent proposal to dealers that the Court condemned the salesmen for making orally. The Court seems to have decided that to suggest passing off by printed words is not unlawful, if the victim does not see them, although it is, to repeat the same suggestion by spoken words. We submit that the defendant should be liable for its use of a deceptive trade name, even if the acts of its salesmen be disregarded (*Armstrong Paint & Varnish Works* v. *Nu-Enamel Corporation,* 305 U. S. 315). Even more so when the salesmen say what defendant's label says —these linings can be passed off as "American Brakeblok". As the Court of Appeals for the Third Circuit said in the *Eli Lilly* case (275 Fed. 752, 756), under similar circumstances, "the defendant was an accomplice, if not the principal, in the practice".

CONCLUSION

All of the grounds of the decision of the Court of Appeals are contrary to the decisions of this Court, and to the law of unfair competition as heretofore existing. The only reason for not following the *Nu-Enamel* case, therefore, is that given by the Trial Judge, and tacitly sanctioned by the affirmance of the Court of Appeals, namely, that it is "a very extraordinary decision" (R. 1489), "extremely difficult to understand" (R. 1485); that it is "a new deal,

or * * * a Nu-Enamel in trade-marks" (R. 1471); and that the District Judge did not "agree with it at all" (R. 1489), in spite of the fact that this Court was "in on it" (R. 1489). Acknowledging his duty to follow it, he followed his preference not to "pay any attention to that decision whatever" (R. 1489). Heretofore, these have not been considered good reasons for the refusal of the lower Federal Courts to follow the decisions of this Court.

It is respectfully urged that the writ be granted.

Respectfully submitted,

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